REVOLUTIONIZING THE BEAUTY INDUSTRY

Intercos hopes to shake up the cosmetics industry in Asia by working closer with Korean companies.

Founded in 1972 and headquartered in Italy, Intercos is a leading global supplier in the color cosmetics and skincare industry, maintaining an important position in the market for beauty products throughout the world. Its clients include most of the internationally recognized brands and the company has completely revolutionized the industry.

Like fashion, the beauty sector continues to evolve every season and Intercos is at the forefront of innovation. Thanks to its growing success, Intercos opened up its second headquarters in Asia and recently collaborated with Korea’s Shinsegae International to form Shinsegae Intercos. Through this collaboration, the company hopes to further extend its reach in Asia and secure a foothold in the region. It also aims to build up its production capacity and strengthen its innovation activities for the Korean market.

Invest Korea Express recently sat down with Martin Breuer, CFO and Head of Asia Pacific of Intercos, to find out more about the company’s endeavor to successfully penetrate the Asian market.
Greetings From Invest Korea

Dear Readers,

It's been just over a month since I've taken office as the new head of Invest Korea and yet so much has happened already. Not only has spring arrived, but I had the chance to sit down with company heads from around the world. Most recently, I traveled to Singapore and China, meeting with investors who were interested in Korea's leading industries, especially in the real estate, logistics, renewable energy and finance sectors. Despite the ongoing economic slowdown, it was encouraging to see international companies express their enthusiasm about possible investment opportunities in Korea. Such productive discussions also gave me a better understanding of what Korea can do to make its investment climate more ideal and appealing to foreign-invested companies.

During my trip, investors also expressed their interest in the country's booming cosmetics industry. Korean dramas, films and music have indeed paved the way for K-beauty. With the Korean Wave continuing to make a splash, our beauty products are experiencing a surge in popularity, most notably in Asia. This month's issue of Invest Korea Express will thus closely examine the rise of Korea's cosmetic industry, its future prospects and its potential for growth in the Chinese market. Thanks to the implementation of the Korea-China FTA, we can expect more Asian consumers to enjoy high-quality cosmetic products with the "Made in Korea" premium.

Spring has officially arrived in Korea and as such, I hope to see the global economy fully blossom this year. On this note, Invest Korea will do its best to help the economy bounce back with renewed vigor.

Sincerely,

[Signature]

Yong Kook Kim
Head of Invest Korea
**In Brief**

**Invest Korea News**

**INVEST KOREA SIGNS MOU WITH ITALY'S SIMEST**

On March 9, Invest Korea, the investment promotion arm of the Korea Trade-Investment Promotion Agency (KOTRA), signed a memorandum of understanding (MOU) with Italy's SIMEST at the Four Seasons Hotel in Seoul.

In a bid to encourage Italian companies to invest in Korea, the two agencies exchanged economic and industrial information to seek investment opportunities as well as provide financial support and information.

Kim Yong-kook, Head of Invest Korea, stated that the latest MOU will help Italian firms enter the Korean market in the cold chain, automobile component, and fashion and beauty sectors.

**OMBUDSMAN OFFICE CONSULTANT GRANTED AMBASSADOR AWARD**

On March 15, Koro Besho, the Japanese Ambassador to Korea, granted the Ambassador Award to Kim Seung-Jin, Principal Executive Consultant of the Office of the Foreign Investment Ombudsman. Kim served as "Home Doctor" at the Ombudsman's Office since its establishment in October 1999, playing an active role in supporting grievance settlements of Japanese companies.

The Office of the Foreign Investment Ombudsman resolves various grievances facing foreign-invested companies in Korea by requesting cooperation from relevant administrative agencies and proposing new policies to improve the foreign investment promotion system.

**JOB FAIR SEMINAR FOR FOREIGN-INVESTED COMPANIES HELD IN JEOLLA PROVINCE**

The 2016 Career Seminar for Foreign-Invested Companies was held at Chonbuk National University in Jeollabuk-do Province on March 23.

Jointly organized by local authorities and KOTRA, the seminar was exclusively held in the province thanks to positive response from students.

The seminar has been held since 2014 to provide employment opportunities and information to job seekers by forming a network between foreign companies and universities. Leading companies such as ABB Group, Robert Bosch and Solvay Silica participated in the event this year.

**KEPCO ATTRACTS MORE THAN 100 COMPANIES TO BITGARAM ENERGY VALLEY**

The Korea Electric Power Corporation (KEPCO) signed memorandums of understanding with 28 companies including Green Information System to attract corporate investment in the Bitgaram Energy Valley in Naju City, Jeollabuk-do Province.

Having signed investment agreements with 77 companies in 2015, KEPCO has attracted 105 companies to the energy valley so far. The investment of the total 105 companies is expected to reach KRW 534.1 billion (USD 456.7 million) and generate 3,837 jobs.

KEPCO also signed an MOU with KOTRA to attract foreign investment.

**KOREA AND CHINA BEGIN TALKS TO REMOVE NON-TARIFF BARRIERS**

On March 16, Korea and China held their first official round of bilateral talks on removing non-tariff barriers to trade.

The first meeting of the countries' Technical Barriers to Trade (TBT) Committee was held in Beijing, marking the first ever meeting of 14 trade-related committees created under the Korea-China free trade agreement that went into effect late last year.

At the event, the two sides discussed how the TBT committee will be run in the future and how it can boost cooperation in tackling TBT-related issues.

China is currently the world's single largest importer of Korean goods, accounting for nearly one-fourth of the country's total outbound shipments.
Recent Trends and Prospects of Korea’s Cosmetic Industry

Korea’s cosmetics brands are diversifying their strategies to appeal to a wider audience, most notably in China. Shanghai Shuang Mei and Herborist, most of the Chinese local brands were low and medium-end brands rapidly expanding their market share.

### Size of China’s cosmetic market and growth rate

| Year | Size of China’s cosmetic market (in USD billion) | Growth rate (%)
|------|-----------------------------------------------|-------------------
| 2004 | 15.64 | 4.5%
| 2005 | 17.50 | 11.5%
| 2006 | 20.65 | 18.1%
| 2007 | 25.05 | 35.5%
| 2008 | 32.36 | 33.1%
| 2009 | 43.20 | 34.1%
| 2010 | 58.24 | 34.1%
| 2011 | 78.26 | 34.1%
| 2012 | 103.50 | 34.1%

### Per capita consumption of cosmetics (2014)

<table>
<thead>
<tr>
<th>Country</th>
<th>Per capita consumption (in dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>72.0</td>
</tr>
<tr>
<td>Korea</td>
<td>150.0</td>
</tr>
<tr>
<td>Japan</td>
<td>180.0</td>
</tr>
<tr>
<td>Europe</td>
<td>120.0</td>
</tr>
<tr>
<td>America</td>
<td>90.0</td>
</tr>
</tbody>
</table>

In contrast, data shows that most of the international brands produced medium or high-end products. Thus, Chinese companies will not pose an immediate threat to Korean or other international companies unless they begin to expand their market in the premium cosmetic sector, which will take more time to develop than low-end products.

In the future, the premium cosmetics sector is expected to enjoy the fastest growth in the Chinese cosmetic market. As of 2011, the premium segment accounted for 19 percent of the country’s cosmetic market, considerably lower than Korea’s 48.7 percent, Japan’s 42.5 percent, the United States’ 33 percent, France’s 40.9, and Hong Kong’s 61 percent. But China’s figure is a huge leap up from its previous numbers, as the premium cosmetics sector only made up 9 percent in 1998. Like Korea, analysts expect China to also experience growth in its premium sector thanks to increased income levels and aging population, among other factors. This sector of the Chinese cosmetic market is currently dominated by international brands. As explained before, Chinese companies have not caught up with

### Future prospects

China’s per capita cosmetics consumption is less than 20 percent than that of Korea’s. And yet, China ranks second following the US in terms of market size. As China’s income levels will rise in the future, its market has become a competitive playing field for global cosmetic companies. Against this backdrop, Japan has already lost its ground to Korea while Chinese demand for Korea’s cosmetics is growing exponentially.

In the midst of such fierce competition, China’s local cosmetics companies are growing fast, accounting for 20 to 30 percent of the country’s cosmetic market share. According to data released by Euromonitor, the total market share of the top five Chinese companies (namely Shanghai Jahwa, Jala, Jiangsu Longqi, Shanghai Inolherb and Poya) increased from 2.1 percent in 2004 to 6.8 percent in 2014. With the exception of
their international counterparts in premium lines yet.

In addition, the recent market trends are indicating that Chinese consumers prefer premium brands. According to a recent data released by KOTRA (excluding e-commerce data), only medium and high-end products saw an increase in their department store sales as of the first quarter of 2015, while sales of low and medium-end products decreased. Compared to several years ago, consumption on imported cosmetic products has grown much faster, surging in 2014 and showing strong growth to date. It is noteworthy that most of the consumer spending was made on expensive international brands.

III. Strategies implemented by Korean companies

- **AmorePacific**

  1. **Company prospects**

     Despite concerns over China’s economic slowdown, the cosmetic industry still has a great potential for growth since a number of brands has recently emerged in the Chinese market. Last year alone, more than 200 brands appeared in the country. This trend is continuing with parts and distribution companies seeking to enter the cosmetic business to secure the growing number of consumers. In terms of age, young consumers are increasing their expenditure on cosmetics, demonstrating a stronger purchasing power. Those born in the 1990s accounted for 15 percent of total consumption in 2012 and the figure is likely to increase to 35 percent by 2020—a major reason why Korea’s AmorePacific considers China to be a promising future market.

  2. **Objective for 2020**

     AmorePacific aims to achieve a gross sales record of KRW 12 trillion (USD 10.2 billion) by 2020. Its Chinese branch, in particular, seeks to achieve a sales record of over KRW 3 trillion (USD 2.6 billion). Under such circumstances, AmorePacific is planning to increase the number of employees at its Chinese branch from 40 to 100 by 2020, as well as designate more personnel into R&D projects. In order to maintain growth in China, the company is also planning to expand its brand portfolio, release products tailored to the needs of Chinese consumers, and quickly respond to customers through digital platforms.

  3. **Opportunities for growth**

     In response to the latest trends, the company’s sales strategies are becoming more diverse. On this note, AmorePacific has gained a strong foothold in Asia thanks to its competitive brand portfolio, boasting a wide range of products from "massrose" products (a combination of mass and prestige) such as Innisfree and Estée Lauder to luxury products like Sulwhasoo. Moreover, each brand has its own distinct keywords for its products like herbal medicine, flowers and nature.

     The case study of global cosmetic firms offers quick and useful lessons. For example, L’Oréal and Estée Lauder are constantly expanding their brand, while Mary Kay, Elizabeth Arden, and Shiseido are showing lackluster performance compared to before. There is one remarkable difference that distinguishes the former group from the latter and that is a diversified portfolio.

     Cosmetic consumers have specific individual needs. Companies trying to satisfy the various needs of consumers with just one brand will inevitably face many limits. As such, we expect AmorePacific to cater to Chinese consumers through different approaches.

- **LG Household and Health Care**

  1. **Business portfolio**

     One positive element for the company’s future is the cosmetic industry’s huge potential for growth. On this note, LG Household and Health Care has gained a competitive edge in this sector and is benefiting from increased sales in the Chinese market. The company’s performance in the daily supplies and beverage businesses is rather lackluster, but its cosmetics business is doing incredibly well. The profit proportion of cosmetic businesses will gradually increase from 50 percent in 2014 to 53 percent in 2015.

     AmorePacific thus has come up with a new slogan called “Global Beauty & Personal Care Company”, as a way to focus on expanding its cosmetic businesses. China’s strong demand for Korean cosmetics and other favorable market conditions will lead to the industry’s rapid growth.

  2. **High-end cosmetic products to attract Chinese consumers**

     LG Household and Health Care’s representative high-end brand, Hu, has gained much popularity among Chinese consumers recently and recorded high sales, particularly at duty-free stores. The company is making more of an effort to expand its distribution channels in China to swiftly respond to increasing demands. As part of efforts to progressively launch brands and expand distribution channels, Hu increased its number of branches from 89 to 124, opened an online store at Tmall Global, and launched the oriental herbal shampoo ‘Rien’. Furthermore, product sales of Sun, another one of its brands, grew two-fold at duty-free shops in 2015 and it continues to record strong numbers. Against this backdrop, both Sun and Hu are expected to become beloved premium brands in China this year.

     By Son Hyo-ju

     Researcher / HI Investment & Securities

     hjson@hi-ib.com
One-on-One with the Foreign Investment Ombudsman

The Foreign Investment Ombudsman celebrates his first year on the job and strongly reaffirms his commitment to helping foreign-invested companies in Korea.

What is the most memorable or difficult experience you had so far?

We believe introducing a new system that allows foreign-invested companies to access newly drafted laws and regulations was a big step forward in improving their business environment. We also established an online regulatory portal and began providing English translations of the related laws and regulations. This certainly reflects my commitment to being proactive in handling the grievances of foreign investors. Access to English explanations of new laws and regulations on the website was a significant change that I felt was desperately needed to help foreign investors. In this way, opinions of the foreign-investors are factored in and furthermore, regulatory transparency and consistency are fostered.

Sometimes we face difficult situations when regulations are found to be at odds with each other and government agencies are in sharp disagreement over some issues. This makes it harder to find solutions.

On the occasion of your first anniversary, tell us about what you had anticipated before taking office and what was your impression after assuming the position?

There were more foreign-invested companies having hard times than I had expected. Most of these situations occur due to the rigidity in laws and bureaucratic procedures that cannot keep up with changes in time. However, I think it is essential for foreign investors to recognize the seriousness of the issue as soon as possible and contact our ombudsman office to swiftly resolve their concerns. If foreign-invested companies feel they are being treated unfairly, they might reconsider their decision to reinvest or even withdraw their business from Korea.

What do you want to pursue as Ombudsman?

Inducing foreign investment into Korea is critically important. So we should continue improving our investment environment through preemptive activities. Our Ombudsman Office will serve as an effective, systematic bridge that enables foreign invested-companies to smoothly comply with governmental oversight and hire more young Korean people. Our measures include further commitments in job fairs for foreign-invested companies.

Any words of wisdom for foreign investors coming into Korea and/or foreign invested companies already operating in Korea?

Our Ombudsman Office is trying to help foreign-invested companies avoid difficulties in operating their business, but they need to take the initiative to seek out and consult with our office as often as possible. We are always ready to listen to their problems and inconveniences. As far as problem-solving is concerned, we need to collaborate more fully in identifying the problems first and in finding the solutions together.
Revolutionizing the Beauty Industry (cont.)

What does Asia mean to Intercos?
Asia is becoming such an important market in the cosmetics industry so we decided to establish a second headquarters in the region. To focus more on different consumer demands and understand the market trends better, we needed a second home in Asia and that is why we built one in Hong Kong. We also want to develop a completely independent value chain in Asia so we established an R&D facility and innovation center to develop raw materials and formulations specifically geared toward the Asian consumer.

What made Intercos want to invest in Korea?
A lot of activities comes from the Korean market and this kind of creativity is demonstrated in the country’s products, especially when it comes to things like BB creams, CC creams, cushion foundations and face masks. Intercos is highly driven by R&D and innovation so we wanted to be a part of this creativity story. We also believed that we would be able to find plentiful resources in the R&D sector and make the best use of the innovative mindset of the Korean people to target the Asian market. That is why we established an innovation center in the country. This center aims to find new cosmetic formulas and raw materials. It also seeks to attract highly-qualified R&D talent and conduct research on completely new formulations, not work on something that has already been discovered.

How did collaboration with Shinsegae International come about?
Intercos seeks to produce and sell its products locally. Our major clients in Korea include the country’s local brands, newly emerging brands, retailers and distributors with private labels. We want our company to be very local. In order to support this development in Korea, we built a joint venture with Shinsegae International in order to have a very strong partnership and network in the country. By doing so, Intercos will build up its activities in sales, marketing, R&D and production, among others. This collaboration will help us cover an important part of our production output for Shinsegae’s own brands like Vidi Vici.

Were there any challenges the company faced while working in Korea?
We hired Korean people who were very familiar with the market from the very beginning so this helped to cut down on any major obstacles. But if I might add, the language barrier is still an obstacle. To find good people in Korea who also speak English very well is a bit of a challenge from my perspective.

How will Intercos compete in an increasingly competitive market especially when it comes to price competitiveness?
50 percent of products made by Intercos are for high-end prestige brands, while the other 50 percent is made for mass brands. Intercos can thus offer different kinds of products on the quality spectrum depending on the wants and needs of our customers.

Also, a very important cost driver is packaging. I think we have a very competitive advantage when it comes to this area because we source most of our packaging from China without compromising on quality, of course. On this note, Intercos currently has 50 people in China scouting the market to develop its packaging strategy, and working on executing with local partners our own design and format innovation. We have a long history and a global network that no one else has.

Do you have any advice for foreign companies trying to invest in Korea?
I think it’s very important for foreign companies to understand the Korean consumer’s demands and their characteristics. Don’t copy what works in other regions because you have to adjust your product and marketing style to each specific Asian audience.

When talking about the country’s cosmetics market, we know that the average Korean woman uses up to ten skin care products a day. You can see the sophistication of the Korean consumer when it comes to skin care, as well as color cosmetics, inspiring even Chinese consumers to wear more makeup products. You also need to be fast as the market moves very quickly here.

What are your forecasts for Korea’s cosmetics industry?
The Korean cosmetics market is expected to grow tremendously and future prospects are very bright. Korean companies are also well positioned in China and many Chinese tourists are coming to Korea to shop for its cosmetics. A lot of important innovations in the cosmetics industry have also come from Korea over the last ten years. We have a lot of customers in other regions who ask for ‘Made in Korea’ products and we expect the region’s market to further grow in the future.

By Esther Oh
Executive Consultant / Invest Korea
estheroh@kotra.or.kr
Osong City, the Beauty Capital of Korea

Osong in Chungcheongbuk-do Province is at the forefront of Korea’s cosmetic industry.

It’s hard to pinpoint exactly when people started using makeup, but early human remains and ancient documents suggest the history of cosmetics dates back all the way to the Stone Age. Scholars have different ideas as to why people decorated their faces; some say it was human instinct, while others say it served ceremonial purposes. Whatever the reason, accessories and bronze mirrors found on the peninsula provide sufficient evidence that Koreans have used makeup for a long period of time. The history of makeup is indeed as long as human history itself and the quality of cosmetic products has improved dramatically with technological advancements. From ancient times to the modern era, natural ingredients such as plant dye, animal fat, or stone powder were used to produce makeup. It was only during the late 19th century that cosmetic products became mass produced and commercialized.

As such, Korea first imported various creams, powders, soaps, perfumes, and other items during the late Joseon Dynasty. ‘Bakgabun’, Korea’s first modern cosmetic product, made its debut in 1922. Afterwards, various beauty products, including sunscreen and whitening creams, were introduced to the world. Now, consumers are turning their attention to anti-aging cosmetics that have been developed through stem cell technologies.

Despite the global economic slowdown, the cosmetics market is maintaining a solid growth rate of more than 4 percent. The Korean market, in particular, is growing at an unprecedented rate, even being referred to as the country’s cash cow. According to data released by the Korea Cosmetic Association, the global cosmetic market size stood at approximately KRW 25.4 trillion (USD 21.8 billion) as of 2013 and is recording an annual growth of over 4 percent. The US, as the biggest player, takes up 14.3 percent of the market, followed by Japan (10.8 percent) and China (8.9 percent). Korea makes up 2.8 percent of the global market and the country is one of the world’s top 10 biggest markets. Notably, Korea’s cosmetic exports grew 18-fold in the past 15 years. In 2014, Korea emerged as the sixth largest exporter of cosmetic products following France, the US, Germany, the UK, and Italy.

Most arguably, the exponential growth of Korea’s cosmetic industry was backed by the 2013 Osong Cosmetics and Beauty World Expo held in Chungcheongbuk-do Province. Thanks to this expo—the first of its kind in Korea—and the region’s great infrastructure, the province quickly emerged as the epicenter of the country’s cosmetic and beauty industry. In addition, a number of big players, such as LG Household and Health Care, are located in this area. Major national health care institutions like the Ministry of Food and Drug Safety, along with 250 cosmetics, beauty and bio-science companies and laboratories also call this region home. The infrastructure for license issuance, research, production, and sales are well established. In addition, farms growing cosmetic ingredients like jujubes, ginseng and other medicinal herbs, are located within just 30 minutes from this area. Cosmetic manufacturing companies are part of this beauty cluster as well. Moreover, the beauty industry of Chungcheongbuk-do Province takes up 27 percent of total production. In this regard, it is only natural that Korea nurture this sector.

On this note, the third Osong Cosmetics and Beauty Industry Expo will be held at Osong KTX Station from October 4 to October 8. This event will be the perfect opportunity for the province to showcase itself as the mecca of Korea’s cosmetics and beauty industry. Last year’s expo attracted 163 cosmetic companies and more than 1000 buyers from home and abroad, recording more than KRW 840 billion (USD 721.6 million) in trade consultations and KRW 100 billion (USD 85.9 million) in contracts.

The beauty industry is at the heart of Korea’s growth. It is also a green industry that consumes less energy and emits less pollution when compared to the country’s other leading sectors. Furthermore, it has been significantly contributing to job creation. As the city continues to emerge as the center of the nation’s beauty industry, the world is paying close attention to how Oson will change the history of cosmetics in the future.

By Juangme Sohn
Manager, Foreign Investment Promotion Chungcheongbuk-do Province, Korea
jmsohn@korea.kr
Economic Analysis

Every Reason Why the Bank of Korea Should Not Lower the Base Rate

Whenever the Bank of Korea's (BOK) Monetary Policy Board meeting is held every month to determine its policy issues regarding the base rate (equivalent to the federal funds rate in the United States), almost all of Seoul's financial analysts do not hesitate to openly express their views. Amid stagnant economic growth and the congressional election looming large on April 13, it seems unanimous this time that the market favors and bets on the BOK's Monetary Policy Board to lower the rate. Although it is understandable why the Board hopes to lower its rate, here are some reasons why it shouldn’t.

First, the rate has been lowered too much under the current administration. Since the change of the monetary policy regime under the IMF’s recommendation in the early 2000s, the base rate has been lowered the most. In the three years under the current Park Geun-hye administration, the rate has already been lowered to 4.5 percent (from 2.75 percent to 1.5 percent). The government argued devaluation as the rationale for the rate-debasement, but Korea has been nowhere near deflation then and now.

Second, rate debasement has shown little effect other than creating an economic bubble. Despite the country's record-breaking low rate since 2013, private consumption and investments have remained dull and shown little growth. Indeed the interest rate’s ineffectiveness on domestic demand has become a sort of ‘stylized fact’ since the early 2000s. On the one hand, private deposits amount to more than KRW 2000 trillion (USD 1.7 trillion) as opposed to KRW 1200 trillion (USD 2 trillion) of household debts. Meanwhile on the other hand, lowering the base rate has a stronger impact on lowering the deposit rate than on lending. The debasement of the rate thus would surely hamper the interest income for the depositor but reduce interest costs for the borrower, rendering less spending.

Third, the current economic slump is not caused by the high interest rate. Therefore, if policymakers want to cure economic sluggishness in Korea, they have to find the real cause somewhere else. In my view, there are two fundamental reasons for low economic growth in Korea—poor export performance and stagnating income.

Fourth, huge capital is already flowing out of Korea. In 2015, the repatriation of foreign investment in Korea amounted to USD 53.3 billion, but the amount of overseas investments made by Korea was even bigger at USD 57.9 billion. Altogether it amounted to USD 111.2 billion, which is even greater than the current account surplus of USD 106 billion in 2015. The funds of foreign as well as domestic investors are flowing outside of Korea and one of the main reasons for this, in my opinion, is the lowered interest rate or expectation thereof.

Fifth, the rate of the Korean won is fairly unstable. One of the key determining factors of investment in Korea is undoubtfully the stability of the won’s exchange rate, but it has shown some volatility since late 2014. Most investors either hesitate from making future investments or withdraw their investments from Korea as they focus more on the won’s potential weakness rather than its strength. Its increased uncertainty is further strengthened by external pressure not to intervene in the exchange market, as well as the gradual drawing down of official reserves since June 2015.

Sixth, the banking industry will gradually lose its strength. The current low rate hinders the banking industry’s profitability as more depositors withdraw their deposits from banks and less people want to borrow due to gloomy economic prospects. The continued rate has deteriorated bank profitability and a number of weaker banks all over the world are showing serious risks of collapse.

Seventh, the Fed is likely to raise the funds rate at least by June 2016. The recent FOMC meeting in March has frozen the rate between 0.25 percent and 0.5 percent as anticipated by the market, but a series of public talks by Fed officials, as well as the comments by Fed Chair Janet Yellen, have strongly hinted the rate hike to take place no later than June and at least twice this year. Yellen pointed out at the press conference that the American economic growth has been fairly good and stable at 2 percent, its job market is particularly strong, and prices and inflation are showing unequivocal improvements. If the Fed is expected to raise the rate twice this year, it is hard to expect the BOK to lower its rate against the head wind from the US.

Eighth, geopolitical tension in the Korean Peninsula has dramatically heightened. Recent provocations of nuclear testing and missile launches by North Korea has heightened South Korea’s alertness, causing the South to naturally increase countermeasures against the North. Although the perceptions of potential geopolitical risks in the minds of investors seem less acute than in past provocations, it is still hard to turn a blind eye to its impact on foreign investment decision making.

By Professor Se Don Shin, PhD
Former Senior Economist, Bank of Korea
Dean, Sookmyung Women’s University
seshin@sm.ac.kr
The A-Z in K-Beauty:
The Latest on Korea’s Booming Cosmetics Industry

A sales rep at Myeongdong’s Nature Republic gestures to a laminated screenshot of facial masks endorsed by Taeyeon, the lead singer of Girls’ Generation, a Korean girl group beloved by teeny boppers. Lush ivy, symbolizing the brand’s theme for natural ingredients, scales the building.

“The Gold Snail Hydrogel Facial Mask has been particularly popular”, she says. “Up until last year, we had to actively approach tourists to try our products. Recently tourists, particularly Chinese tourists, bring photos of different products endorsed by Korean celebrities.”

Thanks to the all too familiar phenomenon known as the Korean Wave, Korea’s beauty products are experiencing record-breaking sales. Last year, the country’s cosmetic exports hit a whopping USD 2.75 billion, a 53.6 percent increase from the previous year. According to a report by the Export-Import Bank of Korea, the K-beauty industry is one of the seven “promising industries” that can post over USD 10 billion in overseas sales in the next five to 10 years.

Beauty Trends to Look for In 2016

Gone are the days of natural, nude makeup. Bold eye-catching colors are the trend for 2016, with lipstick shades like ‘Rose Marsala’, ‘Coral Sunset’ and ‘Daring Pink’ flying off the shelves. Nude color palettes have been replaced with pastels just in time for spring.

Creams and facial masks made from snail slime have been in high demand since 2011, but they are being slowly replaced by products made from ginseng and gold. Lotions and serums containing truffle oil and flower extracts are also highly sought-after.

Despite such major shifts in trends, hydration is still at the core of the Korean cosmetics industry. Different kinds of “aqua-filling” cream, one of the biggest beauty trends forecasted for this year, is stocked in every store in Myeongdong.

To appeal to a wider group of consumers, moreover, cosmetics companies are stepping up their game to appeal to busy working women. The multiple-step Korean beauty regimen, which takes up copious amounts of time in the morning, is being cut down with convenient all-in-one products.

Myeongdong

Even the infamous Gangnam and Dongdaemun are no match for Myeongdong, a shopping mecca that stretches across two subway stations. Jam-packed with stores selling everything from high-end luxury goods to quirky souvenirs, the district has quickly emerged as the hottest destination for tourists, with over one million people passing through this area every day. Myeongdong also houses cosmetic products targeting trend-savvy shoppers scouring the latest fads in makeup.

Myeongdong Tourist Information Center
81, Euljiro 2-ga, Jung-gu
Seoul, South Korea
+82-2-778-0333

Duty free Shopping

Duty free shopping is an extension of the shopping scene in Korea among travelers. Sitting near Myeongdong’s bustling street corner is Lotte Department Store, a sleek building famous for its duty free shops. With three floors of tax-free luxury goods, the department store has dedicated an entire floor to dozens of popular Korean cosmetic brands, and with good reason—tourists purchase these items in bulk.

Lotte Department Store
(Myeongdong Branch)
81, Namdaemun-ro, Jung-gu
Seoul, South Korea
+82-2-771-2500

Yongsan

Although most famous for its electronics stores and U.S. military base, Yongsan is well on its way of becoming a trendy shopping district like Myeongdong.

Most notably, the Yongsan I-Park Mall, a recent duty free license holder, is one of the biggest of its kind in Asia. The mall is home to almost 4,000 shops strategically surrounding Seoul Station, with 600 of them designated as duty free shops. Like Lotte Department Store, the sixth floor of the I-Park Mall is conspicuously labeled ‘K-cosmetics’.

The shifting trends in Seoul’s shopping scene not only reflect changing consumer patterns, but they foreshadow the future growth of Korea’s booming cosmetic industry.

By Ji hyun Rhim
jihyunrhim@kotra.or.kr
Introducing Korea’s SMEs

Each month, Invest Korea Express will introduce one Korean SME that seeks to expand its network with foreign investors looking to do business in the country. In the April issue, we take a look at one of Korea’s leading pioneers in the cosmetics industry.

Life Together

The Korean cosmetics industry is making waves on a global level and one such company contributing to the rise of K-beauty’s popularity is Life Together. Founded in August 2000, Life Together boasts a world-class infrastructure in product development and production in the Korean beauty industry.

The company develops a wide range of revolutionary cosmeceutical products and even has its own R&D facility. The facility is staffed with highly-qualified researchers who work tirelessly to create the safest and most effective products for consumers. Most notably, it has received a patent for its ‘Balasoon Shampoo’, which contains bamboo extracts and oriental herbs that prevent hair loss.

Life Together has participated in a number of cosmetics exhibitions, showcasing its products to international companies. Most recently it participated in the China International Beauty Expo in 2016 and Cosmobeauty Seoul in 2015.

Contact Info

Life Together
Address: Gongdan-ro, Chuncheon-si, Gangwon-do, South Korea
Email: lifetogether@life.together.co.kr
Telephone: +82-1577-4959

Economic Indicators

<table>
<thead>
<tr>
<th>GDP</th>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal (USD million)</td>
<td>1,094,300</td>
<td>1,222,400</td>
<td>1,559,447</td>
<td>1,601,229</td>
<td>1,661,723</td>
<td></td>
</tr>
<tr>
<td>PPP (USD million)</td>
<td>1,505,299</td>
<td>1,222,400</td>
<td>1,559,447</td>
<td>1,601,229</td>
<td>1,661,723</td>
<td></td>
</tr>
<tr>
<td>GDP Growth Rate (YoY) (%)</td>
<td>6.5</td>
<td>3.7</td>
<td>2.3</td>
<td>2.9</td>
<td>3.3</td>
<td></td>
</tr>
</tbody>
</table>

Source: The Bank of Korea, December 2016

<table>
<thead>
<tr>
<th>GDP Per Capita</th>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal</td>
<td>25,998</td>
<td>27,970</td>
<td>27,513</td>
<td>28,352</td>
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<tr>
<td>PPP</td>
<td>33,829</td>
<td>35,379</td>
<td>36,528</td>
<td>37,975</td>
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Source: International Monetary Fund, April 2015

<table>
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<tr>
<th>Foreign Trade</th>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<th>2015</th>
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<tr>
<td>Exports</td>
<td>466,384</td>
<td>555,214</td>
<td>547,870</td>
<td>559,632</td>
<td>572,665</td>
<td>526,757</td>
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<tr>
<td>Imports</td>
<td>425,212</td>
<td>524,413</td>
<td>519,584</td>
<td>515,586</td>
<td>525,515</td>
<td>436,499</td>
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<tr>
<td>Trade Balance</td>
<td>41,172</td>
<td>30,801</td>
<td>28,285</td>
<td>44,047</td>
<td>47,150</td>
<td>90,258</td>
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NORTH AMERICA

New York, USA
Tel: (212) 826-0900
E-mail: ktraky@kotrausa.com

Dallas, USA
Tel: (214) 243-9300
E-mail: joonhak@kotradallas.com

Detroit, USA
Tel: (248) 619-1601
E-mail: detroit@kotradtt.org

Los Angeles, USA
Tel: (310) 954-9500
E-mail: info@kotrala.com

Chicago, USA
Tel: (312) 444-4233
E-mail: info@kotreachicago.com

Silicon Valley, USA
Tel: (408) 432-9200
E-mail: info@kotrasv.org

Vancouver, Canada
Tel: (604) 683-1820
E-mail: ktc@kotravvr.com

Toronto, Canada
Tel: (416) 368-3399
E-mail: info@kotra.ca

EUROPE

Frankfurt, Germany
Tel: (69) 6242-9200
E-mail: frankfurt@kotra.or.kr

Paris, France
Tel: (33-1) 5335-8888
E-mail: paris@kotra.or.kr

Brussels, Belgium
Tel: (32-2) 263-2142
E-mail: ktra@kotradt.org

Stockholm, Sweden
Tel: (46-8) 30-8690
E-mail: stockholm@kotra.se

Vienna, Austria
Tel: (43-1) 586-3876
E-mail: kotra@kotra.or.at

Hamburg, Germany
Tel: (40) 3405-740
E-mail: info@kotra.de

Milan, Italy
Tel: (39-02) 79-5813
E-mail: kotramil@kotra.it

Copenhagen, Denmark
Tel: (45) 5312-6688
E-mail: info@kotra.dk

Madrid, Spain
Tel: (34-91) 556-6241
E-mail: madrid@kotra.or.es

Munich, Germany
Tel: (49-89) 2424-2630
E-mail: munich@kotra.de

London, UK
Tel: (44-20) 7520-5300
E-mail: kotra@kotra.co.uk

Zurich, Switzerland
Tel: (41-44) 503-5300
E-mail: ktc@kotra.ch

Amsterdam, Netherlands
Tel: (31-20) 673-0355
E-mail: info@kotra.com

ASIA & OCEANIA

Singapore
Tel: (65) 6426-7200
E-mail: kotrasin@singnet.com.sg

Tokyo, Japan
Tel: (81-3) 3214-6951
E-mail: kotra@kotra.or.jp

Fukuoka, Japan
Tel: (81-92) 473-2005
E-mail: fukuoka@kotra.or.jp

Sydney, Australia
Tel: (61-2) 9264-5199
E-mail: info@kotra.org.au

Osaka, Japan
Tel: (81-6) 6262-3831
E-mail: osaka@kotra.or.jp

Beijing, China
Tel: (86-10) 6410-6162
E-mail: info@kotra.or.cn

Qingdao, China
Tel: (86-532) 3838-7931
E-mail: info@kotra.org.cn

Hong Kong, China
Tel: (852) 2545-9500
E-mail: info@kotra.org.hk

Melbourne, Australia
Tel: (61-3) 9659-0500
E-mail: info@kotra.org.au

Shanghai, China
Tel: (86-21) 5108-8771/2
E-mail: shanghai@kotra.or.kr

Taipei, Taiwan
Tel: (886-2) 2725-2324
E-mail: info@kotra.org.tw

Guangzhou, China
Tel: (86-20) 2206-1600
E-mail: canton@kotra.or.kr

MIDDLE EAST

Dubai, United Arab Emirates
Tel: (971-4) 450-4360
E-mail: ktcdbx@emirates.net.ae

KORICA

Head Office: 13, Heoljeongno, Seocho-gu, Seoul, Republic of Korea
Tel: (82-2) 3460-7837 | Fax: (82-2) 3460-7920 | info@kotra.or.kr | investkorea.org | Facebook.com/KOTRA
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